

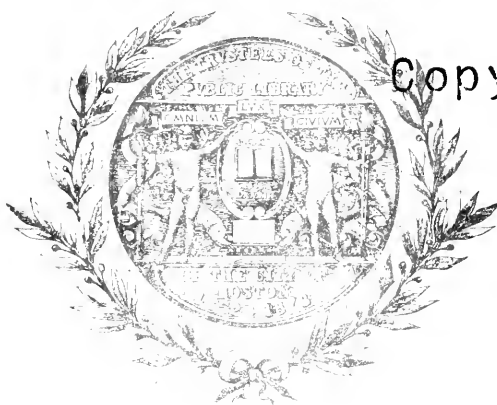
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COMMUNIST ECONOMIC WARFARE

CONSULTATION WITH
Dr. ROBERT LORING ALLEN

COMMITTEE ON UN-AMERICAN ACTIVITIES
HOUSE OF REPRESENTATIVES
EIGHTY-SIXTH CONGRESS
SECOND SESSION



APRIL 6, 1960
(INCLUDING INDEX)

Printed for the use of the Committee on Un-American Activities

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1960

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PUBLIC LAW 601, 79TH CONGRESS

The legislation under which the House Committee on Un-American Activities operates is Public Law 601, 79th Congress [1946], chapter 753, 2d session, which provides:

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, * * **

PART 2—RULES OF THE HOUSE OF REPRESENTATIVES

RULE X

SEC. 121. STANDING COMMITTEES

- * * * * *
17. Committee on Un-American Activities, to consist of nine Members.

RULE XI

POWERS AND DUTIES OF COMMITTEES

- * * * * *
- (q) (1) Committee on Un-American Activities.
(A) Un-American activities.

(2) The Committee on Un-American Activities, as a whole or by subcommittee, is authorized to make from time to time investigations of (i) the extent, character, and objects of un-American propaganda activities in the United States, (ii) the diffusion within the United States of subversive and un-American propaganda that is instigated from foreign countries or of a domestic origin and attacks the principle of the form of government as guaranteed by our Constitution, and (iii) all other questions in relation thereto that would aid Congress in any necessary remedial legislation.

The Committee on Un-American Activities shall report to the House (or to the Clerk of the House if the House is not in session) the results of any such investigation, together with such recommendations as it deems advisable.

For the purpose of any such investigation, the Committee on Un-American Activities, or any subcommittee thereof, is authorized to sit and act at such times and places within the United States, whether or not the House is sitting, has recessed, or has adjourned, to hold such hearings, to require the attendance of such witnesses and the production of such books, papers, and documents, and to take such testimony, as it deems necessary. Subpenas may be issued under the signature of the chairman of the committee or any subcommittee, or by any member designated by any such chairman, and may be served by any person designated by any such chairman or member.

* * * * *

RULE XII

LEGISLATIVE OVERSIGHT BY STANDING COMMITTEES

SEC. 136. To assist the Congress in appraising the administration of the laws and in developing such amendments or related legislation as it may deem necessary, each standing committee of the Senate and the House of Representatives shall exercise continuous watchfulness of the execution by the administrative agencies concerned of any laws, the subject matter of which is within the jurisdiction of such committee; and, for that purpose, shall study all pertinent reports and data submitted to the Congress by the agencies in the executive branch of the Government.

RULES ADOPTED BY THE 86TH CONGRESS

House Resolution 7, January 7, 1959

RULE X

STANDING COMMITTEES

1. There shall be elected by the House, at the commencement of each Congress,

(q) Committee on Un-American Activities, to consist of nine Members.

RULE XI

POWERS AND DUTIES OF COMMITTEES

18. Committee on Un-American Activities.

(a) Un-American activities.

(b) The Committee on Un-American Activities, as a whole or by subcommittee, is authorized to make from time to time investigations of (1) the extent, character, and objects of un-American propaganda activities in the United States, (2) the diffusion within the United States of subversive and un-American propaganda that is instigated from foreign countries or of a domestic origin and attacks the principle of the form of government as guaranteed by our Constitution, and (3) all other questions in relation thereto that would aid Congress in any necessary remedial legislation.

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SYNOPSIS

The Kremlin regards economic warfare as a weapon of conquest, Dr. Robert Loring Allen, specialist in international trade, stated in the accompanying consultation with the Committee on Un-American Activities.

In response to the question as to the role trade plays in the Communist drive for total world domination, Dr. Allen responded:

I think it plays a very important role. I think it may play even the most important role.

In some ways military action is now barred because of the destructive characteristics of modern weapons. At any rate, military action is a very risky proposition and, if undertaken, might well result in the destruction of communism, as well as the destruction of communism's enemies.

Ideologically there are certain limitations to what can be done with communism. Western concepts of individual freedom are so fundamentally hostile to Communist ideology that the chances of really converting large segments of mankind may well have severe limitations in the foreseeable future.

This leaves only a few things that the Soviet Union can depend upon to carry forward its program of ultimate world domination, and certainly one of the things they can do, one of the things that appears neutral, is trade.

Now trade is a matter of machinery and tractors and trucks and manganese ore. All of these things presumably have no ideological implications. It is done in dollars and cents and appears to be a fairly rationalistic type of operation.

I think that the Soviet Union may well be increasingly looking to trade as a way to carry influence where ideology cannot work, where military action is inadvisable, and where direct political pressure—where the possibility for direct political pressure—is not feasible as a weapon of conquest.

In the Kremlin's eyes, the goal of world communism can be achieved by a variety of methods: Economic, political, ideological, military, psychological, and other kinds of activities. To the extent that the West is able to put up defenses against one or another of these forms of conquest, the Kremlin will be forced to turn to another.

In the military and ideological field, I personally think that the West is not in a particularly vulnerable position. Many underdeveloped countries, however, continue to be vulnerable to ideological pressure, and the whole world remains extremely susceptible to economic and psychological warfare. These last two appear to me to be the most important planks at the moment in the Communist campaign for world domination. This does not mean that the leaders of the Communist bloc will not resort to military force if they

consider it to be in their interest, or that they will not use any weapon that comes to hand if it seems to suit them. It means simply that at this time it appears that the cheapest and the prospectively most profitable methods for the advancement of communism appear to be in the economic and psychological realm.

Discussing the objectives of Soviet economic warfare, Dr. Allen continued:

It is not at all necessary that countries go Communist or are taken over by a Communist Party so long as the fundamental elements of sovereignty are transferred from that country to the Soviet Union, which is simultaneously the fountainhead of communism and a great power in the world.

The ultimate objective is the maintenance of a Communist elite, using whatever resources—political, economic, and military—that are available throughout the rest of the world, which they hope will be under their control for their own benefit. At the moment this benefit resides in a small portion of the Russian people.

The balance of bargaining power in international agreements between the Communist bloc and the free world decisively favors the Soviet Union, Dr. Allen stated. He continued:

The problem is simple. A trade negotiator for the Soviet Union represents the entire power of the Soviet Government, and yet he is dealing with an obscure importer from a province town in France.

Clearly, in terms of the importance of these people at the bargaining table, a Soviet negotiator can speak with much more authority. There has been a realization of this to some extent, and the Soviet Union has not in many cases pursued its advantage as much as it could. The danger in the situation resides in the fact that they are not even, in most cases, aware of this imbalance in bargaining power and unconsciously can overwhelm private traders in these negotiations.

In discussing the use by the Communists of technicians and trade specialists as espionage agents, Dr. Allen stated:

One thing about this espionage aspect is that Soviet trade provides an opportunity for the Soviet Union to acquire information about their trading partners of considerable importance. For example, when a country applies for a loan, the Soviet Union, just like any creditor or potential creditor, wants to know something about what the loan is being made for. So they are told, sometimes in great detail, exactly what the situation is in the country. And this is a source of information—not necessarily espionage in the cloak-and-dagger sense, but industrial and commercial information—which is of immense intelligence value to the Soviet Union.

In response to a question regarding the use by the Communists of trade technicians as political propagandists, Dr. Allen continued:

There is no way to avoid it. These are people, and they represent first the Soviet state, and they also represent communism in the countries. Whether or not they get out on soap boxes and deliver speeches is quite another matter, although there has been some of that. Certainly the presence of these people is given an outsized display, particularly in the underdeveloped countries. The press heralds the comings and goings of trade delegates and things of this sort with much fanfare. Every statement they make becomes important to the press, so there is this element of psychological warfare.

I sometimes have the feeling that what we are calling economic warfare is just as much psychological warfare as it is economic warfare; that the economic substance of much of this is pretty slender, and they are willing to undertake a variety of things, just simply for the psychological advantage.

Dr. Allen characterized the threat of Communist economic warfare as follows:

I think it is what we have been talking about, the psychological aspect of it, the possibility that the Soviet Union can gradually work itself into positions of influence with trading partners, to the point where the trading partners gradually have their sovereignty eroded away, where they no longer are in complete control of their foreign policy.

A good example is, I think, the problem of the admission of Red China to the UN. This is a big deal to the Communist area. They think this is terribly important, and everywhere they can, they are emphasizing the importance of the People's Republic as opposed to the Nationalists in the UN. Over a period of years I think Soviet economic activities have influenced some countries.

Clearly Egypt has recognized Red China, and now favors the acceptance of the People's Republic credentials as opposed to those of the Nationalist Government. This is the danger, that a country unwittingly, perhaps unwillingly, will give up things in the field of international affairs that are harmful to the free world.



COMMUNIST ECONOMIC WARFARE

WEDNESDAY, APRIL 6, 1960

UNITED STATES HOUSE OF REPRESENTATIVES,
COMMITTEE ON UN-AMERICAN ACTIVITIES,
Washington, D.C.

CONSULTATION

The following consultation with Dr. Robert Loring Allen, of Eugene, Oreg., was held at 10:40 a.m., in room 225, Old House Office Building, Washington, D.C.

Committee members present: Representatives Francis E. Walter, of Pennsylvania, chairman (presiding), and Gordon H. Scherer, of Ohio.

Staff members present: Richard Arens, staff director, and Fulton Lewis III, research analyst.

The CHAIRMAN. We will come to order.

Will you rise please, Dr. Allen, and be sworn.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. ALLEN. I do.

STATEMENT OF DR. ROBERT LORING ALLEN

Mr. ARENS. Kindly identify yourself by name, residence, and occupation.

Dr. ALLEN. My name is Robert Loring Allen. I am a resident of Eugene, Oreg., where I am an associate professor of economics at the University of Oregon.

Mr. ARENS. Doctor Allen, would you be good enough to give us a brief sketch of your personal background, with special emphasis on your training and fields of specialization?

Dr. ALLEN. I am a professional economist, specializing in international trade. My doctorate was at Harvard, and my undergraduate work was at the University of Redlands.

After my professional training I worked for the United States Government as an intelligence officer for 5 years. The precise details of my work are classified, but in general I performed economic research on the Soviet Union and Eastern Europe, with particular reference to the structure, nature, and characteristics of the economy and foreign trade.

After my Government service I was an associate professor of economics at the University of Virginia for 3 years. There I was the director of the Soviet bloc foreign economic relations project in the Woodrow Wilson Department of Foreign Affairs. The purpose of that project was to undertake a systematic investigation of foreign

economic activities of the Soviet Union, Eastern Europe, and Red China, with particular reference to their activities in underdeveloped countries. Over a period of 3 years we conducted very intensive research, using sometimes as many as 15 researchers, and produced a volume of research, amounting to some 55 books, articles, pamphlets, published largely in the learned journals and by private publishers.

Since my experience in the University of Virginia I have been at the University of Oregon.

I have testified before congressional committees, have been a consultant to the United States Chamber of Commerce, and have commented at professional organizations in my specialization.

Mr. ARENS. How does Communist-bloc trade compare with free-world trade in volume?

Dr. ALLEN. It is relatively small. The Soviet Union, Eastern Europe, and Red China combined, exported approximately \$12 billion worth of goods in 1958. This compares to free-world exports of \$98 billion.

When the intrabloc trade is eliminated—that is, the trade between Red China and the Soviet Union, between Czechoslovakia and Poland—when that is eliminated, the Soviet-bloc trade amounts to about 3 percent of free-world exports on the one side, and free-world imports on the other.

Mr. ARENS. What significance do you attach to this relatively small percentage of trade?

Dr. ALLEN. In order to avoid being misled by the smallness of the numbers, let me point out that it is not always appropriate to just simply regard the aggregate quantity of trade in comparison with the trade of the United States or some other country.

Soviet trade is specifically oriented. It is undertaken for a highly specific purpose, usually both economic and political in nature, and has the characteristic of magnifying itself because of its specificity and because of the nature and character of the operations of Soviet trade. It is conducted through state trading enterprises, which are instruments of the government under a general policy of bilateralism, that is, an effort to balance trade with every individual country with whom the trade is conducted, not balancing trade among all countries necessarily. By carefully selecting trading partners, by the use of moderately effective propaganda, and through the organs of the Communist Party in the trading partners, the Soviet Union makes its trade more important than it is.

In the countries with whom the Soviet Union trades the significance of a million dollars' worth of Soviet trade is far beyond the significance of a million dollars of French trade or American trade or any other particular country. It does double duty, or triple duty, in the service of the Soviet Union.

Mr. ARENS. Why, and how?

Dr. ALLEN. A state trading country has an institutional setup which automatically considers all of the factors affecting the state: military, political, strategic, psychological, ideological—all these things are imbedded in the state trading mechanism. Private traders, on the other hand, are interested in a profit, very frequently without regard to the national interest of the country of which they are citizens. But state trading is different, drastically different. All of these people, all of the trading negotiators, all of the participants in Soviet

trade, are in the service of their government, and are there to serve the interests of the group in control of their country.

Now, in some cases this interest is economic in nature. In other cases it would be political. In other cases it would be military.

Mr. ARENS. Can you cite examples?

Dr. ALLEN. Much of their trade, for instance, in Western Europe is economic. That is, they need the manufactured goods of Western Europe, and they sell to Western Europe whatever they think they can get along without the best. It is fundamentally economic. In other cases it is obviously political and strategic in nature.

Let us consider their trade with Egypt, for an example.

Russia, pre-dating the Communist control, has always had an immense interest in the Middle East, not only because of the oil, but also because of the warm water ports and because of the general geopolitical characteristics of the Middle East.

They tried right after the war, as you recall, to get into Turkey, to set up military bases in Turkey. Turkey rather firmly told them no.

They set up an autonomous Soviet republic, Azerbaijan, in northern Iran, and the United States and Iran objected very vigorously, and they withdrew.

Then they became embroiled in their problems in Eastern Europe, where they were intent on setting up a buffer state system. They became interested in the communization of China. And then, of course, the Korean war forced upon them a degree of military preparedness that they might not have undertaken in any case at that time. So that it was not really until 1954 that they became interested rather intensely again in the Middle East.

By that time Turkey and Iran were our firm allies. By that time also Iraq was allied with the British and the United States.

The only vulnerable position in the Middle East then was Egypt, which had just gone through a revolution, which had displayed rather intense anti-Western feelings, and which had an ambitious leader—ambitious for himself and ambitious for his country. The result was the striking up of a trade relationship, resulting in a serious imbalance of arms deliveries to the Middle East by the Soviet Union and large-scale trade, which now amounts to more than one-half of Egypt's trade, with the Soviet Union, Eastern Europe, and Red China.

Mr. ARENS. How do you interpret the underlying reason for this trade?

Dr. ALLEN. I think it would be foolhardy to say that this is fundamentally economic. The Soviet Union is buying cotton from Egypt. But the Soviet Union is a major producer of cotton and has rather specific plans for the expansion of cotton production inside the Soviet Union. It is difficult, if not impossible, to make a case that the Soviet bloc needed Egyptian cotton. Indeed, as it can be observed, Egyptian cotton is showing up in France and England via Soviet-bloc countries. Czechoslovakia buys it from Alexandria, but instead of going to Czechoslovakia it goes to France, sometimes even at a discount over the price which Czechoslovakia originally paid. They have probably enlarged their stocks of cotton and surplus on hand.

But in any case, the trade of the Soviet Union and the rest of the Communist bloc with Egypt cannot be justified strictly as an economic proposition. Perhaps some trade, yes. But the present volume of trade is rather political and strategic in nature.

Egypt has been cast in the role of an important neutralist power and a leader among the neutralist powers. By exercising more and more influence over Nasser and over Egypt, the Soviet Union hopes to weaken the influence of the United States, Great Britain, and France in the Middle East and would eventually, I think, like to reduce the freedom of action of Egypt in international affairs to the point where, while Egypt would remain a sovereign state, the Soviet Union would loom so large in all decisions of the state that it would not in fact be an independent country.

Mr. ARENS. Do you have another example?

Dr. ALLEN. Another example is Iceland. In this case it is very interesting to note the relationship between the local Communist Party and Soviet foreign trade.

In 1950 the Soviet Union did not trade with Iceland. This was after a period of trade in the late 1940's when Iceland had a Communist cabinet minister. When the Communist cabinet minister was dismissed, Soviet trade was also dismissed. Later when a Communist cabinet minister came back, Soviet trade has thrived again, and now approximately one-third of Icelandic exports goes to the Soviet Union and Eastern Europe. Iceland has just undertaken a major economic and political reform. The consequences for Soviet trade are not known yet.

Soviet bloc Icelandic trade is not large in amount—perhaps \$50 million—and it is pretty clear that this amount of fish to the Soviet Union is nothing. The Soviet Union is a major fish producer in the world, and this is a drop in the bucket compared to Soviet consumption of fish.

When it became obvious that the United States was going to insist upon an air base in Iceland, when the ties between Iceland and the United States were firm, the Soviet Union did not have too much interest in that trade.

But now approximately 20 percent of Iceland's electorate votes Communist, and there is a thriving legal Communist Party.

The air base issue is a matter of great controversy. And I think the Soviet Union very clearly is using its trade to attempt to influence Iceland to withdraw from NATO, which would mean the elimination of the air base at Reykjavik, as well as the introduction of much more elaborate economic planning within the Icelandic economy.

Mr. ARENS. Do you have another illustration, Doctor?

Dr. ALLEN. Finland is a most interesting example.

Finland lost a war to Russia, and one of the results of that war was very large Finnish reparation payments, a significant proportion of the Finnish total product, paid over a period of years in the late 40's.

But more than just the reparations, the Soviet Union insisted upon the delivery of specific items. These items included prefabricated housing and shipbuilding.

At the time the Soviet Union was insisting upon this kind of delivery on reparations, Finland did not have an industry which could put out prefabricated houses. So Finland, in effect, built an industry in order to pay its reparations. At the end of reparations they had an industry which was high cost and could not produce competitive products for Western Europe. The only market for these products was in the Soviet Union.

Trade has also thrived between Finland and the Eastern European countries. Trade has varied, but it has always been a significant proportion of Finnish trade, roughly one-third of Finnish exports going to the Soviet Union and Eastern Europe, and approximately the same proportion of their imports.

The Soviet Union was apparently willing to tolerate an independent Finland. It is very interesting to speculate on the reasons why.

They were not willing to tolerate an independent Czechoslovakia. They could probably have done the same thing to Finland that they did to Czechoslovakia in 1948, but they did not. Perhaps the reason is that they thought they could get more out of Finland in reparations and in various forms of assistance by having them an independent country. Perhaps they feared an even greater public reaction than happened in Czechoslovakia.

We in this country, for instance, have a very strong emotional attachment to Finland, I think. And if Finland had been on the timetable after Czechoslovakia, the reaction which would have been called forth from the West might have been rather severe, and perhaps the Soviet Union did not choose to face that reaction.

Mr. ARENS. What is the actual status of Finland?

Dr. ALLEN. Ostensibly Finland is a free country. In fact, Finland is an economic satellite of the Soviet Union. I can illustrate it in this way:

In December 1958, after a long period of disagreement with the Soviet Union over the absence of any Communist representation in the Finnish Government, the Soviet Union became rather obviously and specifically dissatisfied, and it resulted in the fall of the Fagerholm government in December 1958. The Soviet Union had stopped its orders for Finnish goods; it had refused to reenter trade negotiations which were to have begun in October, and it made it clear that some very basic readjustment was going to be necessary.

I think from our point of view it is pretty clear that the readjustment the Soviet Union wanted was Communist representation in the government of Finland.

Roughly 25 percent of the Finnish electorate votes Communist. Roughly 25 percent of the Finnish parliament is Communist. There is no open, known Communist representation in the executive department, or government itself.

When President Kekkonen of Finland went to Moscow he negotiated at length, agreed to accept a rather large ruble loan, made a variety of other concessions, publicly criticized the Finnish press for criticizing the Soviet Union, and made a variety of other amends to the Soviet Union. But, he was able to forestall having a Communist in the government.

It is clear, though, as a result of this incident, that Finland is not a free agent. When the Soviet Union chooses to put the screws on, Finland has no choice but to knuckle under. They are so dependent upon commerce with the Soviet Union—for instance, all of their petroleum, most of their grain, all of their fertilizer, all of their cement, come from the Soviet area—they cannot afford not to get along with the Soviet Union under the present circumstances, and the Soviet Union has made it clear that this commerce is not just plain commerce. It is also an avenue for either political amity or political animosity between the two countries.

Mr. ARENS. Have you made a study, Doctor, of the evidence bearing on the question of political-economic integration of the satellite states with the Soviet Union?

Dr. ALLEN. Yes. Immediately following World War II the Soviet Union maintained its military preeminence in a number of East European countries, including Germany, Poland, and so on, but almost at once these countries were required to make to the Soviet Union very large-scale deliveries of industrial equipment.

The Soviet Union at the end of the war was a very weak nation, economically. They needed vast sums of capital. They negotiated with the United States for a loan—and this never developed.

In addition to the idea that the Soviet Union needed a buffer between itself and the free world, the Soviet Union definitely looked to Eastern Europe as a source of capital goods and of economic assistance in Soviet postwar reconstruction.

Trade of the East European countries before the war, such countries as Poland, Czechoslovakia, was predominantly with Western Europe, with Germany, with Italy, with France, with the United Kingdom. Trade between Eastern Europe and the Soviet Union was negligible.

But at the end of the war the pattern was just reversed. The trade of all of these countries became predominantly with the Soviet Union, and over a period of time this fanned out so that the trade of any given East European country became distributed among the other East European countries and the Soviet Union, and then later with Communist China.

They were not sufficiently secure, I don't believe, in their political position through the local Communist Parties to be able to rely on just the political ties, and the economic ties were of very great significance. It means that today, for instance, it is unrealistic to think of an East European country trying to get along without the Soviet Union unless somebody else is prepared to step in and occupy the position that the Soviet Union occupies in that country's trade.

In every one of these countries between 50, 75, and 90 percent of their trade is with the Soviet Union, the other satellite countries, and Red China.

The economic relationships are increasingly being formalized. For instance, all of them adopted centralized planning as one of the initial steps. The next step beyond that was to coordinate their plans, so that they begin and end at the same time.

The step beyond that was that various sectors of the economy began highly specific cooperation, so that there would be a specialization, for instance, in chemicals, in East Germany; in certain kinds of manufacturing production, in Czechoslovakia; in petroleum, cooperation between the Soviet Union and Rumania; coal, of course, cooperation between the Soviet Union and Poland.

Mr. ARENS. Is there any formal coordinating entity?

Dr. ALLEN. There exists an organization, the Council for Mutual Economic Assistance, set up in the late 1940's, which continues to grow in importance and strength, to coordinate all of the activities of the Soviet-East European area and make them more or less a single economy, even while they retain national identity and certain of the trappings of sovereignty. They are, in fact, enmeshed in the Soviet economy and the Soviet complex on the continent of Europe, increas-

ingly to the degree that they are not really independent, not even in a nominal sense. They are integrated in a very real sense, and the political domination, of course, continues with political decisions being preeminent.

It did not bother the Soviet Union to incur fairly significant economic losses in Hungary in order to see to it that Hungary did not acquire the degree of freedom that she, Hungary, sought.

Mr. ARENS. Would you please, Doctor, comment on the respective size and characteristics of Communist-bloc aid as compared with free-world aid?

Dr. ALLEN. Communist aid is a Johnnie-come-lately in the aid field. It was not really initiated until 1955 and, in many ways, is an imitation or an attempted imitation of what the United States has been doing since the end of the war. It is pretty clear that they felt that the United States was gaining very significant political advantages in the cold war as a result of its aid program, particularly the Marshall Plan. This hurt the Soviet Union, since it hoped to gain territory in Western Europe because of Western Europe's weakened condition following the war. The Marshall Plan helped to foil this plan.

So the Soviet Union developed an aid program of its own, having unique characteristics, oriented primarily to the underdeveloped countries. And in the course of, let us say 4 years, the Soviet Union, Eastern Europe, and Red China have loaned approximately \$3 billion to underdeveloped countries.

Mr. ARENS. Which countries are the principal recipients of their aid?

Dr. ALLEN. The principal recipients are: Egypt, Afghanistan, Indonesia, India, Iraq, Yugoslavia, Argentina, and some small scattered loans to other countries.

Mr. ARENS. Has the \$3 billion actually been expended in goods or services?

Dr. ALLEN. We should be careful about this figure of \$3 billion which we read about in the press because this represents commitments of the Soviet Union or, in other words, lines of credit. They have agreed to loan Argentina \$100 million. This does not mean that Argentina has used \$100 million or that the Soviet Union has delivered \$100 million worth of goods to Argentina.

In general, the deliveries have lagged considerably behind promises to deliver. This is partly understandable on the grounds that it does take time to deliver capital goods and to tool up to provide economic assistance.

We have experienced the same thing in our efforts to assist other countries. Their deliveries, it is pretty clear, go beyond this, and there are inordinate delays, simply because the Soviet Union is not an experienced trader, continually considers a variety of noneconomic considerations in its assistance. And while there are many protestations of "no strings attached," a country which does not retain the political friendship of the Soviet Union is frequently abruptly told that its economic assistance has been terminated.

Specifically my estimate is that the Communist bloc had delivered, by the end of 1959, about \$400 million of goods on economic account. Now this does not include arms. Arms are included in the \$3 billion figure, but arms deliveries are very rapid because these come from

stocks. They are not manufactured new to fill orders. They come from stocks and can be delivered almost overnight.

Arms deliveries today have probably amounted to as much as \$800 million, primarily to Egypt, Syria, some to Afghanistan, Yemen, Iraq, and Indonesia.

Mr. ARENS. How does the aggregate foreign aid of the Communist bloc to recipient countries compare with the free-world aid?

Dr. ALLEN. In some aggregate sense their assistance is much smaller. But remember that Soviet assistance is highly specific and highly directed. In Yemen, for instance, there has been no American assistance, and yet there is Soviet military and economic assistance. In Afghanistan, probably the promises of the Soviet Union to deliver economic assistance exceed American deliveries. This is true also of Egypt. It is not true of India.

If one had to draw a figure comparable to the \$3 billion for the last 4 years for the West, my guess would be that it would be in excess of \$10 billion. But again, the size of the aid is not the important thing. The specific characteristics are much more specifically oriented in the case of the Soviet Union.

Mr. ARENS. Is the Communist aid directed toward the fulfillment of a need of the recipient peoples, or is it directed toward the accomplishment of other objectives?

Dr. ALLEN. The Soviet Union purports to make economic assistance available to countries in accordance with the needs of the recipient. But when these are examined in some detail, it turns out that there is just as much of the Soviet orientation in their assistance as there is, we will say, in Syrian orientation in the assistance.

The problem is this: Everyone knows that the Soviet Union emphasizes industry. Everyone knows that the Soviet Union does not consider a nonindustrial project of any particular consequence. So that if you want to get money from the Soviet Union, you ask for an industrial project. Or you ask for a project that is fancy and impressive, like a stadium or some other thing which enables the Soviet Union to display its benevolence. These things these countries know they can get from the Soviet Union, so they ask for them.

Now, it is sometimes hard to tell, but it is pretty clear that in many cases the spokesmen for these countries do not know the real needs of their countries. They have a feeling about what they should have, but they have not made a careful economic, geological, engineering analysis of their situation to enable them to really determine in any detail what it is that their countries require. So they ask for what they can get.

The Soviet Union has done pretty well on this line, of giving them what they ask for, so long as what they ask for fits in with what the Soviet Union wants to do.

Mr. ARENS. To revert to the proposition of trade, what are the leading trading partners of the Communist bloc?

Dr. ALLEN. Well, this has two answers: One, the leading partners of each country within the Soviet bloc are the other Soviet-bloc countries. But then if you cancel out this internal trade, the leading trading partners are primarily the West European countries.

Finland ranks high, the United Kingdom and Yugoslavia rank high, among the industrialized complex of Western Europe.

But there is a very significant expansion of Soviet-bloc trade with the nonindustrialized countries of Asia, Africa, and Latin America. It is growing faster than Soviet-bloc trade generally.

In the earlier days—that is, 1952 to 1956—it was Eastern Europe which was expanding its trade rapidly with the primary producing countries. They more or less paved the way for a more recent rapid expansion of Soviet trade with Middle Eastern countries, with India, with Indonesia, and other countries of this type.

Mr. ARENS. What have been the trends in Communist-bloc foreign economic activities in recent years?

Dr. ALLEN. A very substantial expansion of trade has been experienced by the entire Soviet area. From 1950 to 1958 Soviet-area trade expanded two and one half times.

Mr. ARENS. Would you define what you mean by "Soviet area"?

Dr. ALLEN. Soviet Union, Eastern Europe, and Red China.

The trade figures out roughly at 25 percent per year. Over the same period, free-world trade has expanded at 8 percent per year, approximately, so that in the trade sense, the Soviet-area trade is gaining ground on free-world trade.

If you extrapolate present trends in free-world trade and Communist trade, by 1975 Communist trade will be one-fourth of free-world trade. And by the same sort of simple arithmetic calculation, at some predictable date in the near future the Soviet area could become the leading trading partner of every country in Asia, Africa, and Latin America. I would say this could happen within the next 15 to 20 years.

Mr. ARENS. What are the motives of Communist-bloc trade and aid?

Dr. ALLEN. They are economic in the sense that there are deficiencies in the Soviet economy, that there are advantages to be had by relinquishing lumber for textile machinery. But the motives are also political in the sense that the Soviet Union perceives that trade is an important avenue of influence over the policies of other countries.

It is very difficult to separate the economic and political motives. We in the West are accustomed to think of trade primarily as economic. We do it for reasons of profit. But this concept is alien to the Communist ideology, and they look upon trade essentially as an instrument of the state.

Mr. ARENS. For what objective?

Dr. ALLEN. For whatever objective is paramount to the state at the particular time.

Mr. ARENS. For what ultimate objective?

Dr. ALLEN. Certainly there is little question about the kind of world that the Soviet Union wants to have. They want a Communist world, and they propose to have it.

Mr. ARENS. What role does trade play in the Communist drive for total world domination?

Dr. ALLEN. I think it plays a very important role. I think it may play even the most important role.

In some ways military action is now barred because of the destructive characteristics of modern weapons. At any rate, military action is a very risky proposition and, if undertaken, might well result in the destruction of communism, as well as the destruction of communism's enemies.

Ideologically there are certain limitations to what can be done with communism. Western concepts of individual freedom are so fundamentally hostile to Communist ideology that the chances of really converting large segments of mankind may well have severe limitations in the foreseeable future.

This leaves only a few things that the Soviet Union can depend upon to carry forward its program of ultimate world domination, and certainly one of the things they can do, one of the things that appears neutral, is trade.

Now trade is a matter of machinery and tractors and trucks and manganese ore. All of these things presumably have no ideological implications. It is done in dollars and cents and appears to be a fairly rationalistic type of operation.

I think that the Soviet Union may well be increasingly looking to trade as a way to carry influence where ideology cannot work, where military action is inadvisable, and where direct political pressure—where the possibility for direct political pressure—is not feasible as a weapon of conquest.

In the Kremlin's eyes, the goal of world communism can be achieved by a variety of methods: Economic, political, ideological, military, psychological, and other kinds of activities. To the extent that the West is able to put up defenses against one or another of these forms of conquest, the Kremlin will be forced to turn to another.

In the military and ideological field, I personally think that the West is not in a particularly vulnerable position. Many underdeveloped countries, however, continue to be vulnerable to ideological pressure, and the whole world remains extremely susceptible to economic and psychological warfare. These last two appear to me to be the most important planks at the moment in the Communist campaign for world domination. This does not mean that the leaders of the Communist bloc will not resort to military force if they consider it to be in their interest, or that they will not use any weapon that comes to hand if it seems to suit them. It means simply that at this time it appears that the cheapest and the prospectively most profitable methods for the advancement of communism appear to be in the economic and psychological realm.

Mr. ARENS. What sort of world do the masters of the international Communist movement envision?

Dr. ALLEN. Certainly communism has long since abandoned the idea that somehow or other the world would be magically transformed into a world in which everyone accepted a Communist faith.

What the Kremlin leaders are in process of doing now with the use of communism as a basic tool is acquiring power, power in this world at this time by any means, fair or foul, at their disposal.

Specifically the Soviet Union, I believe, wants to dominate other countries, but not necessarily even by the preeminence of a local Communist Party in every case.

I can conceive the Soviet Union would be well pleased with a situation similar to Finland's relationship to the Soviet Union for Egypt or India or Indonesia and other countries. They are not fundamentally concerned with the peoples of India or Egypt or Indonesia.

The Kremlin is not basically concerned as to either their personal well-being or the content of their thinking, whether they are Communist, whether they are agnostic, or whether they are Christian.

What they are concerned with is that India represents power in the world, it is a certain land mass, it is a certain group of people, it represents productive capabilities, and the Kremlin leaders want to control these productive capabilities. They would be satisfied to control them with Nehru in power or they would be satisfied to control them with a local Communist in power or they would be satisfied to control them with anyone in power, so long as their fundamental goals of world control are being pursued in India.

It is not world communism in the sense of a grandiose Utopian communal type of organization and system that the Kremlin leaders hope to achieve. They hope to achieve increasing power—political power, economic power, military power—to the point where they are not, and cannot be, challenged by any other power in the world. All sorts of arrangements with other nations are possible under this type of thinking.

It is not at all necessary that countries go Communist or are taken over by a Communist Party so long as the fundamental elements of sovereignty are transferred from that country to the Soviet Union, which is simultaneously the fountainhead of communism and a great power in the world.

Mr. ARENS. And the ultimate objective is what?

Dr. ALLEN. The ultimate objective is the maintenance of a Communist elite, using whatever resources—political, economic, and military—that are available throughout the rest of the world, which they hope will be under their control for their own benefit. At the moment this benefit resides in a small portion of the Russian people.

Mr. ARENS. What techniques does the Communist bloc employ in initiating and developing its trade program?

Dr. ALLEN. In its trade with the recently independent countries and in initiating trade with countries with whom it has not traded in the past, the Soviet Union employs its normal diplomatic personnel, either those accredited to the new country, or to neighboring countries.

As an example, Ghana had barely moved into its offices before an ambassador had been appointed and Soviet representation was present in the country. And hardly before the paint was dry on the signs in the offices, a Soviet trade delegation was in Accra to negotiate a trade agreement between the State of Ghana and the Soviet Union.

The initial point of contact is the diplomatic service. Behind this point exists echelons of trade delegations and trade negotiators, culminating in the Ministry of Foreign Trade in the Soviet Union, which controls all of Soviet foreign trade.

It must be mentioned that since the Kremlin leaders are not highly regarded in many places, they have found it advantageous in some instances to make their initial contacts and approaches by representatives of one or more of the more respected East European countries, such as Poland and Czechoslovakia. Perhaps the point of contact would be the Czech ambassador, followed by Czech trade negotiators, and the Czech Ministry of Foreign Trade.

After this trade is established, and perhaps has been conducted for a year or more, then the Soviet Union moves in with a similar operation. In most cases, however, the initiative is taken by the Soviet representatives.

After trade has been settled down, that is, after trade has been conducted for a number of years, in some cases where a country has

faced some dire economic need, they have approached the Soviet Union. This is still fairly rare.

We must keep in mind that the Soviet Union is not an experienced trader, it is not a large trader. People do not think of the Soviet Union generally in a trading context. It has only been in the last few years that you ever read anything in the newspapers about Soviet trade. So that whatever the initiative is, it must come from the Soviet side.

I am trying to think of an instance where a country has approached the Soviet Union—I do not think of one where the initial approach has been by the trading partner. After the trade is established, yes. But not the initial approach.

In instance after instance, Iceland, Burma, Yugoslavia, Egypt, India, all of them, the first approach was the Soviet approach. Then later, for instance, in the new Indian 5-year plan, which begins in 1961, the Indians went to the Soviet Union and said, "We would like to have some credit to help fulfill this plan." And the Soviet Union said yes.

But Soviet trade with India now is half a dozen years old, and there is already experience of Indians borrowing from the Soviet Union, so they felt free to do this.

But in the case of Iraq recently, when they broke away from all their so-called Western influence, it was the Soviet Union that approached Iraq to make a loan to Iraq. Iraq did not take any initiative there.

Mr. ARENS. How does Communist trading work?

Dr. ALLEN. Partly as I described earlier, through the process of trade negotiators, initiated perhaps with the diplomats. It is conducted within a framework of a bilateral agreement, that is, an agreement between the Soviet Union and Argentina, or Brazil, for example. This agreement will specify the goods to be exchanged. It may specify the precise quantities of goods. And it may specify the general level of trade, that is, whether it is going to be \$50 million a year or \$100 million a year.

This agreement is an intergovernmental agreement, that is, it is negotiated between the Ministry of Foreign Trade of the Soviet Union, or whatever Communist country is involved, and the trading partner's government.

It does not have the characteristic of a binding legal contract, however. Indeed, in most of these agreements there is a provision that if a dispute arises it will be arbitrated in the Moscow arbitration court.

This peculiarity of the legal characteristics of Soviet trade has been subjected to a great deal of study. The operations in the Moscow arbitration court have not been entirely satisfactory to the trading partners, and increasingly there is a pressure to have a mixed arbitration court. The Swedes, for instance, just simply refuse to enter a trade agreement where the Moscow arbitration court held final authority, and now there is a mixed arbitration court.

Mr. ARENS. How does the independent business firm within the free-world country that has a trade agreement with the Communist bloc get into the picture?

Dr. ALLEN. Within the framework of this intergovernmental agreement, the free-world country will agree to issue export licenses.

This is usually the extent of the commitment on the part of the free-world government. They will not guarantee the delivery of goods. They will not carry it on their own account. They will agree to make available to exporters and importers licenses which will permit the trade to take place so that after this agreement has been signed, a French exporter of, we will say, automobiles, will apply for an export license, will be granted such, and he will then negotiate directly with the Soviet trade delegation in Paris for the purchase of French automobiles; and at the same time a French importer desiring Soviet manganese ore, after the agreement has been signed, will apply for an import license, will be granted it, and will conduct personal negotiations with the trade delegation to acquire the goods.

Mr. ARENS. What is your appraisal of the balance of bargaining power in international agreements between the Communist bloc and the free world?

Dr. ALLEN. In general it favors decisively the Soviet Union. The problem is simple. A trade negotiator for the Soviet Union represents the entire power of the Soviet Government, and yet he is dealing with an obscure importer from a province town in France.

Clearly, in terms of the importance of these people at the bargaining table, a Soviet negotiator can speak with much more authority. There has been a realization of this to some extent, and the Soviet Union has not in many cases pursued its advantage as much as it could. The danger in the situation resides in the fact that they are not even, in most cases, aware of this imbalance in bargaining power and unconsciously can overwhelm private traders in these negotiations.

It is for this reason that governments attempt to protect private importers and private exporters from the superior bargaining power. In many cases there will be a government representative at trade negotiations. There will be a coordinating committee within the government which will oversee the trade to see to it that the traders are not being gouged particularly.

And in other instances, because of this problem, consortiums are formed, combinations of firms which have greater bargaining power.

You probably noticed in the New York Times a few months ago that an American consortium has arranged to sell a textile plant to the Soviet Union. One of the reasons for this consortium arrangement was to overcome this problem of bargaining strength of the Soviet Union, so a group of companies banded together to do it. And from what I gather it is a fairly sensible trade arrangement. I know nothing of the details.

But Soviet bargaining power is a problem and it is, interestingly enough, a very serious problem within Eastern Europe.

Mr. ARENS. What about relative prices between Eastern Europe and Soviet Russia and Western Europe?

Dr. ALLEN. We now have fairly complete trade statistics for the Soviet Union from the period of 1955 through 1958, and some people have made very careful statistical analyses of this information and they have found, interestingly enough, that Soviet export prices to Eastern Europe are higher than Soviet export prices of the same products to Western Europe.

On the other side of the coin, Soviet import prices from Eastern Europe are lower than Soviet import prices of the same goods from Western Europe.

In other words, Eastern Europe is coming out on the short end of the stick in this process, even though they are Communist.

A part of this problem is that there does not seem to be any really effective way for the Soviet Union to gauge how to price commodities in trade. We must remember they have no pricing system that is related to world prices, so they pretty much go by world prices.

We were speaking of Communist world domination a moment ago. In a sense they can not afford to have complete domination of the world, because they need at least one independent country to set prices for them. Otherwise, they do not know the value of anything.

Mr. ARENS. What prices are used in Communist trade?

Dr. ALLEN. By and large world prices. That is, the prices on the London market, the New York market, and the Liverpool market; the prices of comparable goods produced by other manufacturers—West Germany, the United States, and the United Kingdom. These are the only prices they have.

Their internal pricing system is not related to anything. It is a bookkeeping system to keep track of what goes on, by and large.

Mr. ARENS. What is the ruble really worth?

Dr. ALLEN. This is very difficult to say, because it is really worth a different amount for each different commodity. It does not have a universal value.

Its official value, of course, is 4 rubles to \$1. In some aggregate sense it is probably worth something like 10 rubles to \$1. It is very substantially overvalued.

But this does not really matter, because when the Soviet Union trades, or when other Communist countries trade—with a variety of exceptions—they trade at world market prices. Take, for example, a tractor which the Soviet Union wants to sell to India. The price of this tractor internally may be 60,000 rubles. All right, that presents no problem; 60,000 rubles may be what it cost in rubles to build the tractor. But that tractor, compared to a West German tractor of equal quality, is only worth, we will say, \$2,500. Well, 4 to 1, that is 10,000 rubles. In selling that tractor to India they sell it for \$2,500, or its equivalent in sterling or in rupees. So they have taken a bookkeeping loss of 50,000 rubles, which they will make up in some other place, or which they may just carry as a bookkeeping deficit in trade.

There is not any relationship between cost and prices internally, or between the Soviet price system and the international price system.

Mr. ARENS. In what commodity is the Soviet Union paid for an article of merchandise which it sells?

Dr. ALLEN. Increasingly, as the free world has strengthened itself and the international economy has been strengthened, the Soviet Union has sold for dollars or sterling or marks, and bought with dollars or sterling or marks.

Originally, in an earlier period, these were pretty much barter agreements. That is, the Soviet Union would agree to sell so much manganese ore in return for so much consumer goods, shoes, we will say, from India. And these were valued in terms of some very vague notion of what these products would sell for if they were being sold somewhere else.

But nowadays, if the Soviet Union wants to buy wool from Uruguay, the Soviet trade negotiator and the Uruguayan trade negotiator sit down at the table and bargain in dollars.

The Uruguayan will say, "Our price is such-and-such."

The Russian will say, "Well, we are buying quite a lot of this; can you give us a 4 percent discount?"

The Uruguayan will say, "No; we will give you a 2 percent discount for the quantities involved."

Or the Russian may alternatively say, "If we are going to buy this stuff—and you might not sell it otherwise—we will give you 80 cents on the dollar at the present price in Liverpool."

The Uruguayan will say, "We might have difficulty selling this in the world market. But that is too much; we want 90 percent of the Liverpool price."

That is how it goes. There is no discussion of rubles or anything of that sort. And when it comes to paying, in most cases the Soviet Union uses dollars or pound sterling or other convertible currencies.

In many cases they maintain mutual bank accounts in each country, and to the extent possible these cancel one another out, and so it is only at every 3 months or every 6 months or every year, we will say, that there is an actual transfer of sterling or other convertible currency.

Mr. ARENS. To what extent is gold used in trade with the Soviet Union?

Dr. ALLEN. Not very much. The Soviet Union has been exporting gold for the last several years. I do not have the most recent statistics, but my recollection is that in 1958 they sold about \$250 million in gold. This was in order to acquire dollars and pound sterling so they could pay their bills. They are not in the gold market for speculative purposes so far, and they are not gold buyers.

Mr. ARENS. Is the Soviet gold store a threat to world markets?

Dr. ALLEN. Conceivably, yes. No one knows really the magnitude of this gold stock, and it gives everybody fits to think about it. I have made some guesses, and they are probably no better than anybody else's guesses. My guess is that it is of the order of \$7 billion. This amounts to something. If they choose to use this in international markets, they could cause a lot of trouble, certainly. I am not sure it would suit their purposes particularly. If we followed the notion of what the Soviet Union is trying to do at the moment, which is to acquire increasing power over other countries, it would appear that the way they can do this best is by a sort of gradual encroachment into world markets. If they start acting like a bull in a china shop, by throwing gold around hither and yon and disrupting markets, this would be counterproductive.

We should not lull ourselves into thinking they might never use gold if it ever suits them, and if there was ever a payoff where this gold could be used to buy something, to buy a country, they would use it. But at the moment, it seems to me that it will pay the Soviet Union, and is paying the Soviet Union, to act fairly decently in its trade, that is, to behave fairly well, to try to keep their trading partners moderately satisfied, within the limits of what they can afford politically.

When Yugoslavia got out of line last year, this was just too much. Yugoslavia has been a thorn in the side of the Soviet Union ever since 1948 and it just would not bow to the Soviet Union ideologically;

it just refused. And Stalin could not tolerate it in 1948, and finally Khrushchev could not tolerate it any further in 1958.

And so when it came to a showdown in May of 1958 they just cut off all economic assistance to Yugoslavia, and trade just dropped precipitously between the Soviet area and Yugoslavia.

It is clearly punitive action, just as Finland was punitive action. And the Soviet Union will do this, there is no question about it. If they thought they could gain by putting the screws on Egypt, they would do it. But it is a question of what they can, or what they hope to, achieve by various methods.

By and large their thinking, I believe, is in terms of a gradual building up to a position where they do not need to exercise their power to have their power felt. If they gradually get so much influence over the Egyptian Government through trade, then just a hint is enough to make Egypt fall into line, and they never have to use this power. They have it.

Mr. ARENS. How does the Communist bloc disrupt world markets?

Dr. ALLEN. It has done this in a number of instances. It is very difficult to fathom why they have done it. An example is the tin case recently. Most of you have heard of this.

The Soviet Union started in 1957 exporting tin in rather large quantities and it had never been a large tin exporter. The result was that subsequent to the Soviet sales, the tin price dropped.

There was considerable disruption in the tin market for a while. The major tin producers had to cut back on their exports to make things come out right.

The problem was that the tin was produced in Red China. Red China owed the Soviet Union a lot of money, and so it was paid by shipping tin. Thus, the Soviet Union had a lot of tin, far in excess of its needs. The problem was, what was the Soviet Union going to do with the tin? If they sat on the tin, that reduces their sterling balances, because this represents assets tied up in the form of tin. They could have sat on the tin and sold gold, and do the same thing. They chose to sell the tin. They got in the process, I think, something like \$38 million in sterling, and made Bolivia angry and also made Malaya and Indonesia and some other countries upset at them.

I do not really think their intention was to disrupt. I think it was much more simple-minded than that. They just wanted sterling and they did not realize the consequences of their action. They did not have enough savvy in international trade to know that 18,000 tons of tin cannot be poured onto the market without having a considerable disruptive effect.

As I mentioned earlier, they were acting like a bull in a china shop. I think they did it unintentionally. I would not be prepared to argue that they did not do it intentionally and I think they would if it would be to their advantage.

Mr. ARENS. Are Soviet technicians used as espionage agents?

Dr. ALLEN. There have been a number of instances where Soviet diplomats and Soviet trade negotiators have been accused of being agents. And I do not think that there is any question but what they have been. You see, there is a fundamental problem of what is an agent in this sort of context. Anyone who represents the Soviet Union, be he ambassador, reporter for the press, trade delegate, is in

a sense an agent. Whether or not he has been engaging in subversive activities or stirring up trouble or things of this sort, may be even less important than the fact that his very presence is a Soviet presence and there have been instances—well, you can mention Mexico, Argentina, and, of course, the famous Australian Petrov case. And Afghanistan. These countries—Argentina, Mexico, Afghanistan—have dismissed people, sent people back, because they were participating in questionable activities.

One thing about this espionage aspect is that Soviet trade provides an opportunity for the Soviet Union to acquire information about their trading partners of considerable importance. For example, when a country applies for a loan, the Soviet Union, just like any creditor or potential creditor, wants to know something about what the loan is being made for. So they are told, sometimes in great detail, exactly what the situation is in the country. And this is a source of information—not necessarily espionage in the cloak-and-dagger sense, but industrial and commercial information—which is of immense intelligence value to the Soviet Union.

There have been somewhat more sticky situations. For an example, in Montevideo, the Government of Uruguay let a variety of companies and countries bid on a telephone network. They wanted to rework the whole communication system of Montevideo. The Czechs made a low bid, and it was an unrealistic low bid. One gets the impression that the Uruguayans felt that they could not permit the Czechs to work on their telephone system, because this is such an important and vulnerable element of the Uruguayan economy that if the Czechs did it this would give them complete knowledge of the communication system with all of the possibilities for tapping and for other aspects for sabotage or anything of this sort. And they did not give it to the Czechs. They gave it, I believe, to a British company.

Mr. ARENS. What about the use of trade technicians as political propagandists?

Dr. ALLEN. There is no way to avoid it. These are people, and they represent first the Soviet state, and they also represent communism in the countries. Whether or not they get out on soap boxes and deliver speeches is quite another matter, although there has been some of that. Certainly the presence of these people is given an outsized display, particularly in the underdeveloped countries. The press heralds the comings and goings of trade delegates and things of this sort with much fanfare. Every statement they make becomes important to the press, so there is this element of psychological warfare.

I sometimes have the feeling that what we are calling economic warfare is just as much psychological warfare as it is economic warfare; that the economic substance of much of this is pretty slender, and they are willing to undertake a variety of things, just simply for the psychological advantage.

Mr. ARENS. What is the threat of Communist economic warfare?

Dr. ALLEN. I think it is what we have been talking about, the psychological aspect of it, the possibility that the Soviet Union can gradually work itself into positions of influence with trading partners, to the point where the trading partners gradually have their sovereignty eroded away, where they no longer are in complete control of their foreign policy.

A good example is, I think, the problem of the admission of Red China to the UN. This is a big deal to the Communist area. They think this is terribly important, and everywhere they can, they are emphasizing the importance of the People's Republic as opposed to the Nationalists in the UN. Over a period of years I think Soviet economic activities have influenced some countries.

Clearly Egypt has recognized Red China, and now favors the acceptance of the People's Republic credentials as opposed to those of the Nationalist Government. This is the danger, that a country unwittingly, perhaps unwillingly, will give up things in the field of international affairs that are harmful to the free world.

Mr. ARENS. Why is the Soviet bloc so anxious to trade with the United States?

Dr. ALLEN. Two reasons: One, psychological: We have kept them from doing it; therefore, they want to do it. And it sets a wonderful example; you see, if we would trade with the Soviet Union, why should not Pakistan, or anybody else? If we will trade with them, there is no reason why anybody on earth should not trade with them. This is one thing, the political-psychological element.

The other one is strictly economic: The Soviet Union has just embarked on a very ambitious industrial plan. They need things to fulfill this plan. They need chemical equipment, they need a variety of pieces of industrial equipment. They want to get them from the United States. They want to buy our technology and our machinery and equipment, and they are willing to pay for it.

They would like to wring out the last possible political and psychological advantage in so doing, but they would still like to have the material.

Mr. ARENS. What can or should the United States do to minimize the threat of Communist economic warfare?

Dr. ALLEN. This is a very difficult question. I think that we ought to arrange our own affairs in such a way that trade with the Communist bloc by other countries is not particularly advantageous. We ought to provide such a healthy, sound, international economy, or contribute to a sound, healthy, international economy, that the Kremlin cannot make any headway with its gimmicks and gadgets and with its offers of premium prices and things of that sort. What we want are free international markets. Then when the Soviet Union does business, they have to behave just like any other country. There is no advantage in side deals with really free international markets and relatively free flow of goods and services.

This does not mean that there will not be any trade barriers. Countries will always have trade barriers. I think in some cases trade barriers are to excess. And we ought not to divide up the world amongst ourselves. We ought not to adopt the techniques of the opposition. We ought to give every advantage, every possible advantage, to the development of the private trading system, free enterprise system, in trade.

It sometimes worries me that we tend to think in terms of planning and state operations in order to combat planning and state operations. I do not think that is the answer. I am convinced that we have a better system. We ought to make the most effective use of that system. We should improve that system. There are lots of deficiencies, lots of things wrong with it, some specific and some general things

could be done to improve it. But certainly we should not attempt to emulate the Soviet Union.

For instance, in aid, they are imitating us. Now we should imitate them again?

I think the greatest contribution that we can make is continued efforts toward free international markets with as low a level of trade barriers as is consistent with sound progress of the countries of the free world and encouragement of the free enterprise system in trade and in the operations of the domestic economy.

The CHAIRMAN. Thank you very much, Dr. Allen, for your splendid contribution in our consultation.

(Whereupon, at 12:50 p.m., Wednesday, April 6, 1960, the consultation was concluded.)

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